



MASSACHUSETTS OPEB COMMISSION

Discussion at PERAC's Emerging Issues Forum

September 20, 2012

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OPEB

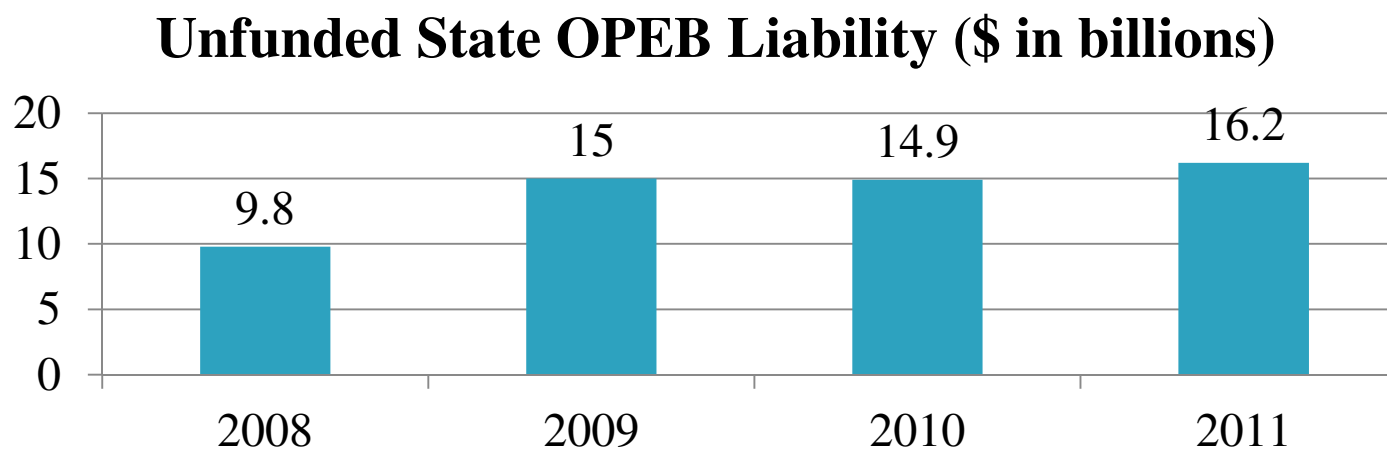
- OPEB is “Other Postemployment Benefits” – i.e.: benefits other than pensions
- It is health care, mostly, but might also include:
 - Life insurance
 - Dental coverage
 - Prescription drug benefits
 - Vision
 - Includes beneficiary benefits
- Frequently just referred to as “Retiree Health Benefits”
- OPEB has gained attention following the release of GASB’s Statements 43 and 45 in 2004

GASB Statements 43 and 45

- GASB is the “Governmental Accounting Standards Board”
- GASB staff:
 - OPEB is “a part of the compensation that employees earn each year, even though these benefits are not received until after employment has ended. Therefore, the cost of these future benefits is a part of the cost of providing public services *today*.”
 - “...the readers of financial statements, including the public, have incomplete information with which to assess the cost of public services and to analyze the financial position and long-run financial health of a government.”
- In Statements 43 and 45, GASB requires disclosure of OPEB costs and liabilities beginning in 2008 (later for smaller municipalities).

Disclosure of OPEB Costs & Liabilities

- Commonwealth of Massachusetts unfunded liability: \$16.2 billion

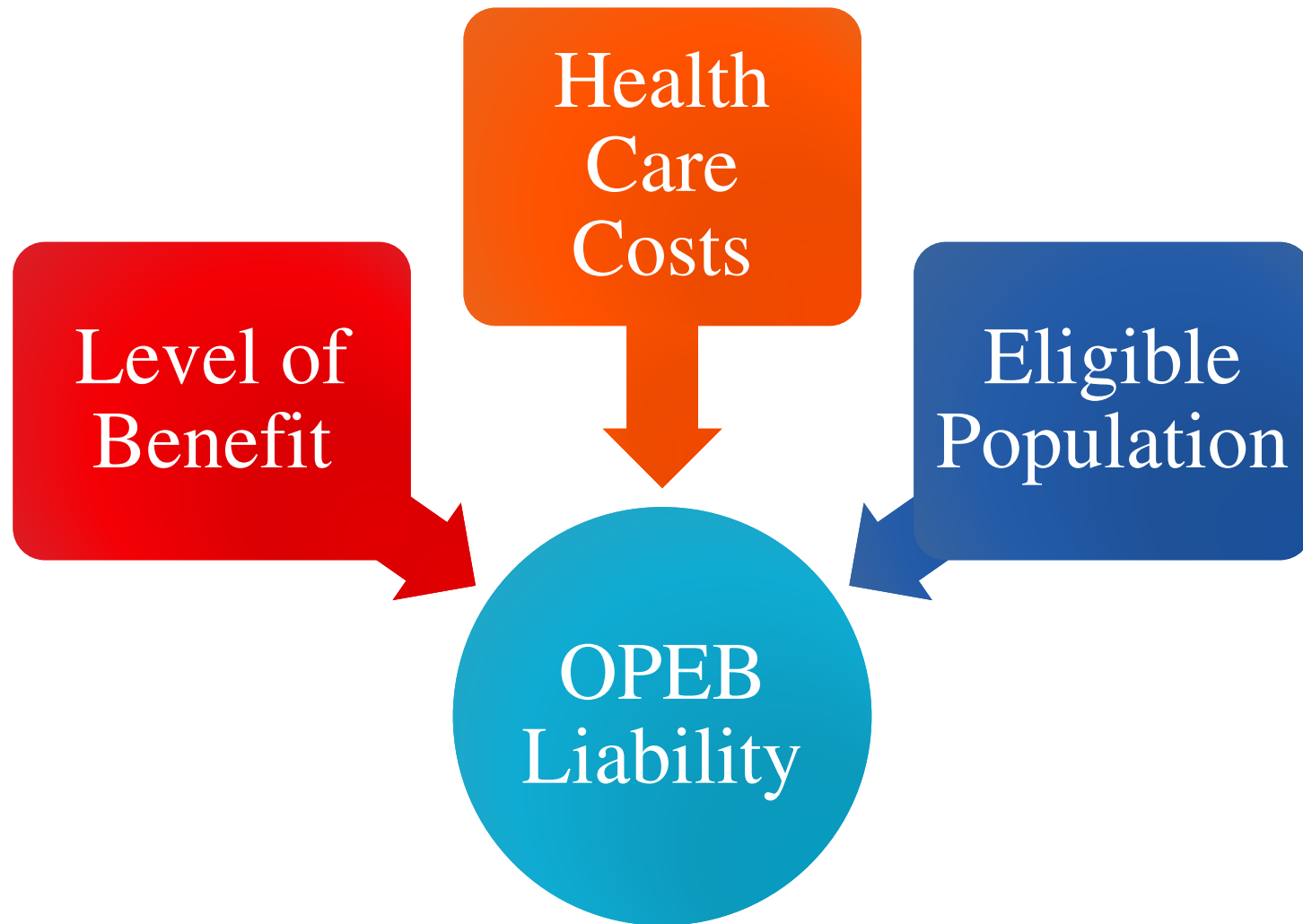


- Estimated municipal unfunded liability: \$29 – 30 billion
 - Each municipality reports separately from the Commonwealth
 - Municipalities include cities, towns and regional school districts
 - Municipal OPEB liabilities include teachers, in contrast to teacher pensions which are a state liability

OPEB is Beginning to Impact Budgets

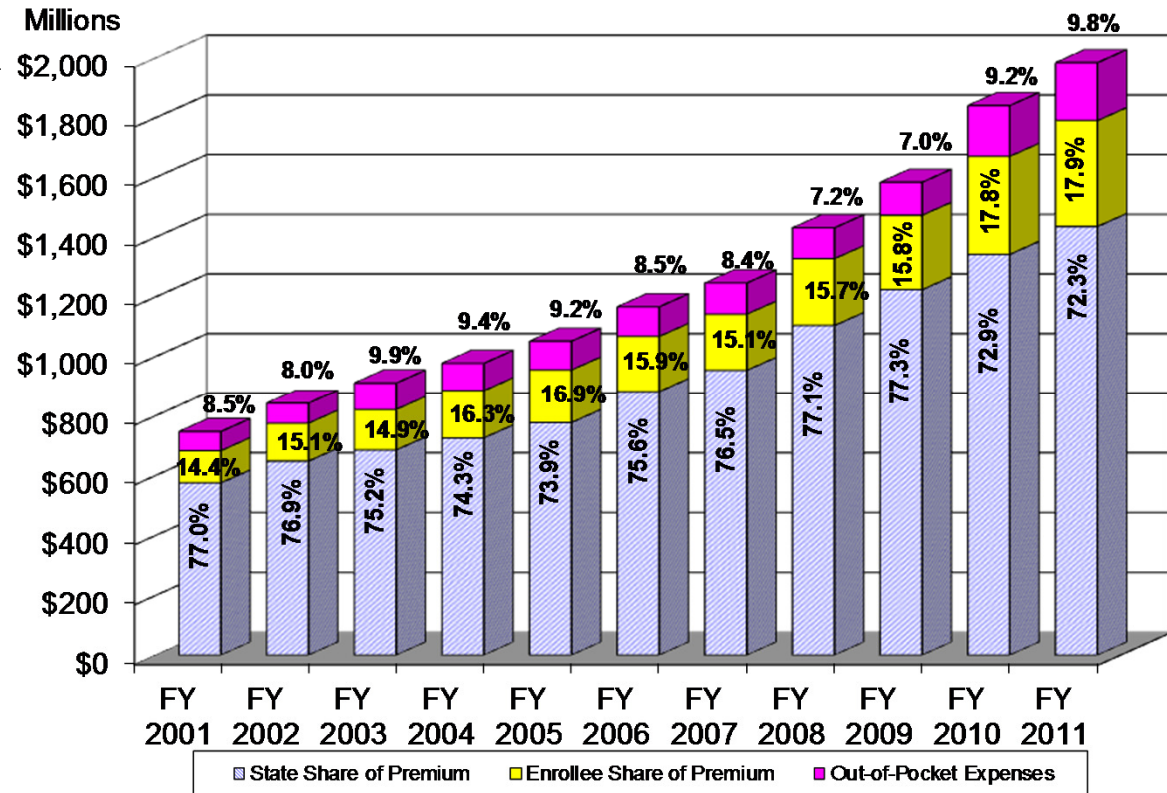
- Health care cost inflation is hurting
 - Total health insurance expenditures by municipalities have increased from 12% to 19% of property tax revenue between 2001 and 2010.
- **Municipalities:** The portion of health insurance costs attributable to retirees is estimated to be over \$700mm annually. Funding the actuarial Annual Required Contribution (ARC) would cost approximately \$1.75-2 B.
- **State:** FY2013 retiree health costs are \$415mm but funding the ARC would amount to \$1.1 B annually.
- There is continued pressure on state and municipal budgets to maintain adequate funding for retiree pensions

Drivers of OPEB Liabilities



Health Care Cost Inflation Borne by State / Municipalities

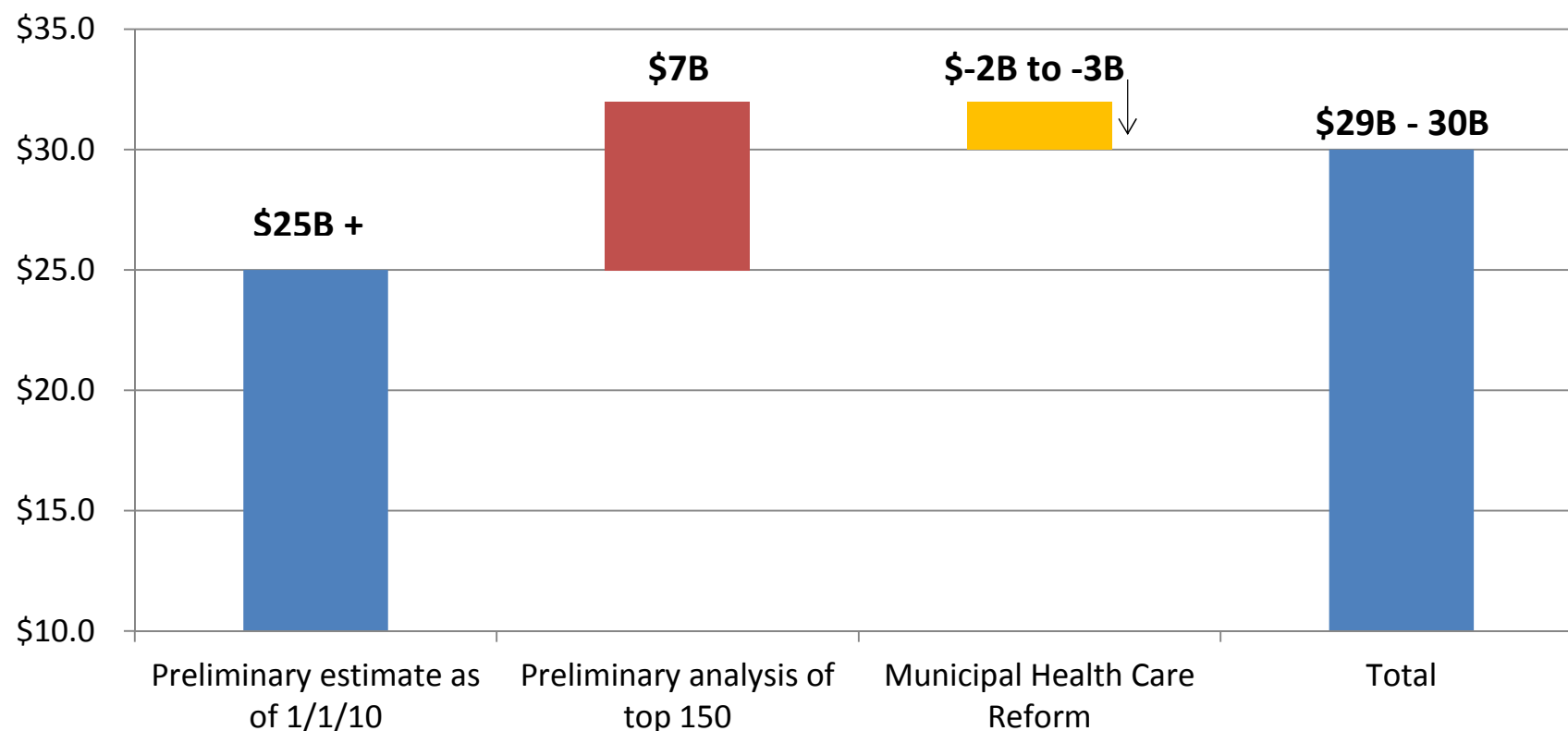
- GIC health expenditures grew 59% from 2007 to 2011.
- By comparison, state revenue grew 15% over this time period.
- Enrollee share of premium up 2.8% after 2009 when actives began paying 5% more.



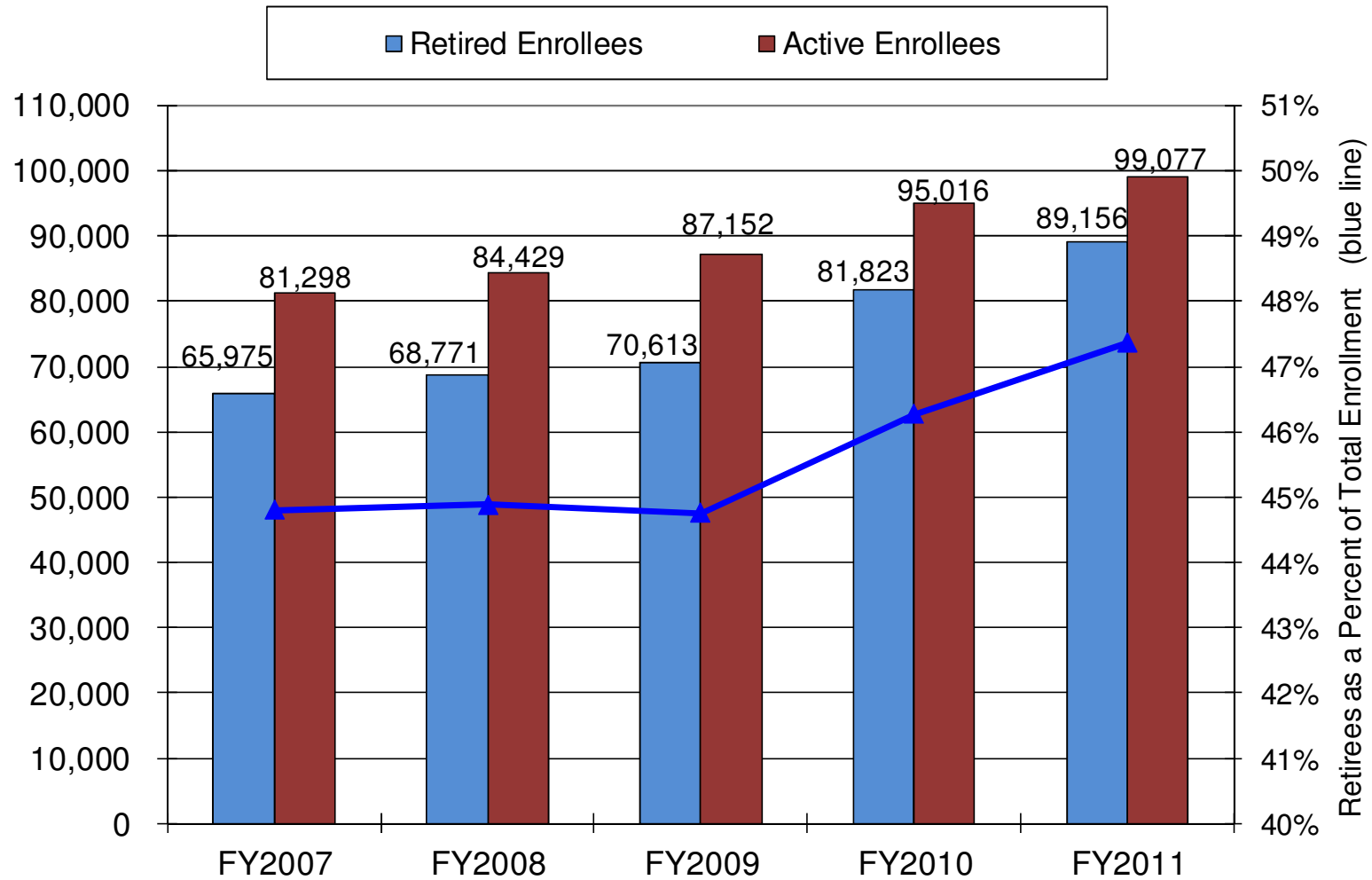
What about Municipal Health Care Reform?

- It helped, by about \$2 – 3 billion

Amount in billions*



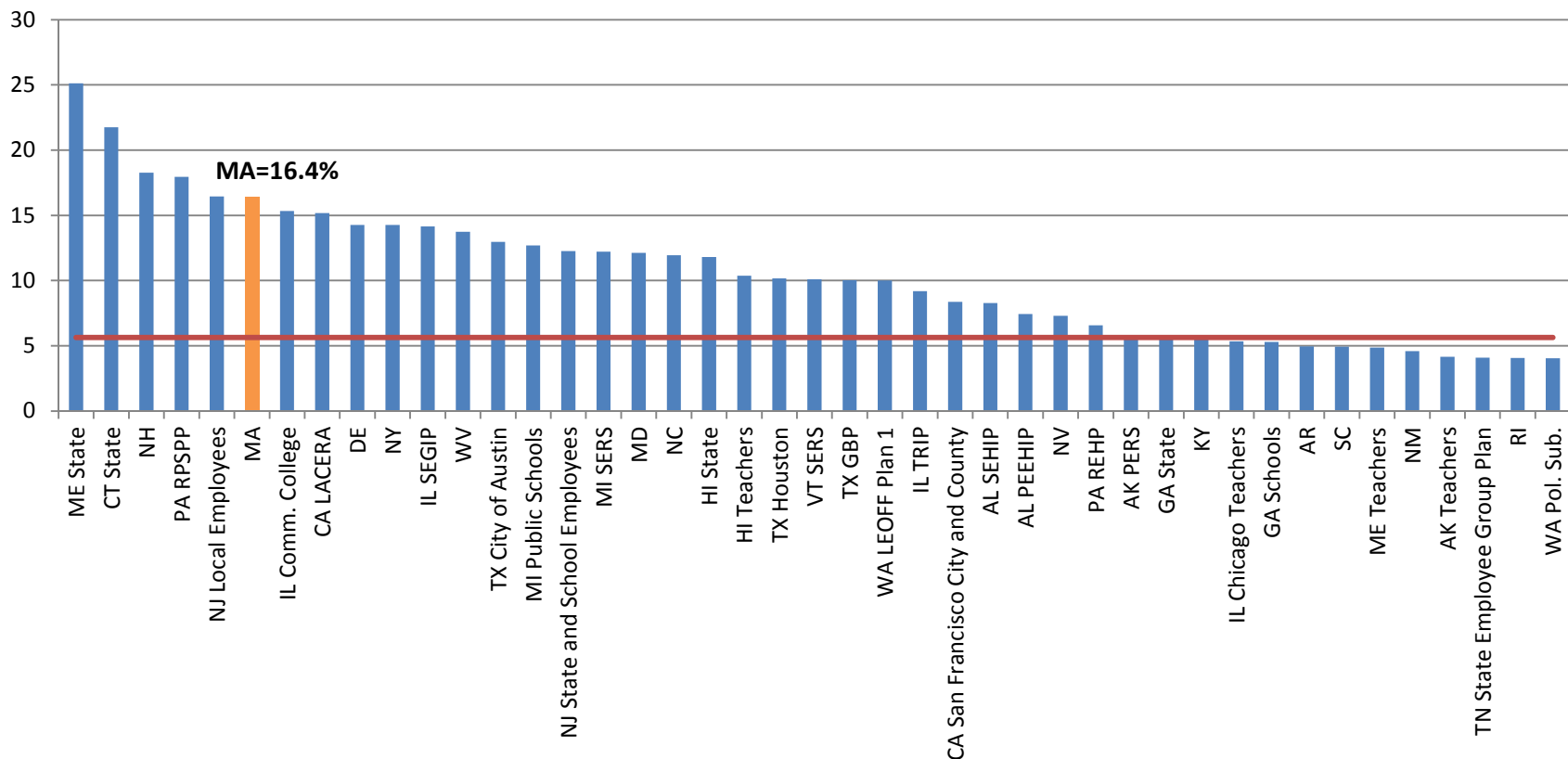
Eligible Population is Increasing



GIC Data.

Massachusetts' OPEB Liability Growing Among the Fastest

Normal Cost as Percentage of Payroll*



Source: Alicia H. Munnell et. al., "Comparing Compensation: State-Local Versus Private Sector Workers." *Center for Retirement Research at Boston College*. September 2011. Study of 64 plans across 48 states and DC.

Normal cost as a percentage of salary is a useful metric because it accounts for differences between average salary levels. Most of the key assumptions from these plans, are reasonably similar (e.g. 55 of 64 have a discount rate between 4 and 5%)

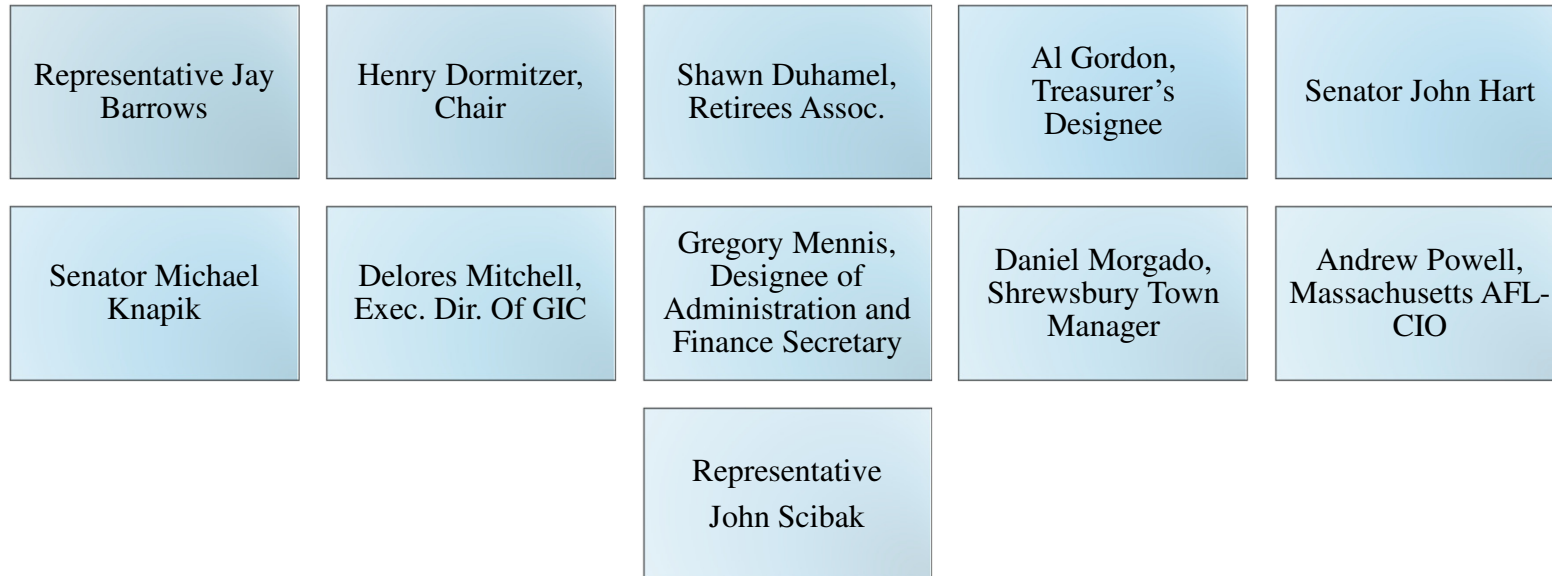
Most Other States Have Taken Control Measures

- Raising Minimum Age Requirement
- Setting minimum service requirement at 20 or 25 years
- Pro-Rating Premiums based on years of service:
 - As a % of Total Premiums
 - As a % of dollar costs, using a pre-defined figure per person
- Dollar Cap for Employer Contributions
- Employee contributions
- Other measures:
 - Provide only “continuing coverage” for employees that are retiring directly from state and local government
 - EGWP program
 - Level of survivor coverage

The OPEB Commission's Mandate

- Consider the range of benefits that are or should be provided as well as the current and anticipated future cost of providing them;
- Consider and may make recommendations on how best to divide the costs between the commonwealth and employees;
- Study the operation and structure of the group insurance commission or any other aspects of employee healthcare the commission deems appropriate; and
- Upon appropriation of sufficient funds, engage professional advisors as needed to accomplish its purposes

The OPEB Commission



- Established by Chapter 176 of the Acts of 2011
- Commission has met 3 times and anticipates another 3 meetings
- Commission has procured an actuary
- **Recommendations by December 2012**